

Message Text

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SUBJ: CENTRAL BANK POSITION

1. SUMMARY: CENTRAL BANK PRESIDENT GUILLERMO BUESO ANNOUNCED THE CENTRAL BANK POSITION ON FOREIGN RESERVES, COMMENTED UPON ITS CREDIT POSITION, AND DISCUSSED GENERAL FINANCIAL CONDITIONS IN HONDURAS.
END SUMMARY.

2. AS OF 26 APRIL THE GORSS RESERVES OF THE CENTRAL BANK WERE \$143.5 MILLION. DEDUCTING LOANS OWED BY THE CENTRAL BANK AND BANKING SYSTEM OBLIGATIONS, THE NET RESERVES WERE \$101 MILLION. THIS, ACCORDING TO SENOR BUESO, IS A RECORD LEVEL FOR HONDURAS. IT RESULTS FROM INCREASED EXPORTS AND REDUCED IMPORTS. CAPITAL MOVEMENTS WERE ASSISTED IN 1974 AND 1975 BY FUNDS OBTAINED THROUGH THE IMF PETROLUUM FACILITY AND THE GOLD TRANCHE. IN ADDITION, THE BILATERAL VENEZUELAN DEVELOPMENT FUND MONEY OF APPROXIMATELY \$22.5 MILLION (WHICH WILL ALSO BE AVAILABLE IN 1976), AND THE \$25 MILLION FROM THE CENTRAL AMERICAN STABILIZATION
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FUND WERE FACTORS IN UNUTILIZED FUNDS ICLUDE \$15 MILLION

FROM THE COMPENSATORY FINANCING WINDOW OF THE IMF AND THE \$60 MILLION FROM NORMAL IMF FACILITIES. THE PRESENT STRONG RESERVES SITUATION WILL PERMIT HONDURAS TO REPAY ITS IMF LOAN OF 1974, AND \$12.5 MILLION OWED TO THE CENTRAL AMERICAN STABILIZATION FUND.

3. SENOR BUESO COMMENTED THAT THE FIGURES RESULT FROM THE STABILIZATION PROGRAM ADOPTED BY THE CENTRAL BANK IN 1974. THE CONDITIONS WILL PERMIT THE MAINTENANCE OF EXCHANGE RATE STABILITY (THE LEMPIRA RATE HAS BEEN UNCHANGED FOR OVER FORTY YEARS) AND CONTINUE TO DEAL WITH THE PROBLEMS OF INFLATION.

4. IMPROVEMENT IN TRADITIONAL EXPORTS SUCH AS BANANAS, COFFEE, WOOD AND MEAT, AND NEW EXPORTS SUCH AS SUGAR, CONTRIBUTE TO THE STRONG TRADE ACCOUNT POSITION. AN INCREASE IN COMMERCIAL BANK LIQUIDITY HAS LEAD THE CENTRAL BANK TO FOLLOW A "NEUTRAL" POLICY IN GOVERNMENT ACCOUNTS SO AS TO NEITHER EXPAND NOR CONTRACT CIRCULATION. INCREASED BALANCE OF PAYMENTS RECEIPTS HAVE FOLLOWED IMPROVED MARKET PRICES ANFSDPICONTRACTS WITH PRODUCERS. THROUGH THE NATIONAL INSTITUTE OF COFFEE, A CHANGE OF DIRECTION IS BEING GENERATED TO "NATIONALIZE THE FINANCING AND CONTROL IT." SUGAR EXPORTS OF 20,000 TONS ARE EXPECTED IN 1976 AND DOUBLE THAT IN 1977.

5. SENOR BUESO SAID THAT THE TERMS OF TRADE HAVE NOT ALTERED DRASTICALLY, ESPECIALLY DUE TO INCREASES OF MACHINERY AND FINISHED PRODUCTS. BUT THE INCREASE IN HONDURAN EXPORT PRICES, PLUS THE RECUPERATION OF PURCHASING COUNTRY ECONOMIES HAS RESULTED IN A SLIGHT IMPROVEMENT.

6. THE BALANCE OF PAYMENTS DEFICIT IS EXPECTED TO BE SIMILAR TO THAT OF 1975, BUT POSITIVE CHANGES IN RECEIPTS MAY RESULT IN A REDUCED DEFICIT.

7. IN SUMMARY, SENOR BUESO SAID THAT HIGH LIQUIDITY AND INCENTIVES TO INVESTMENT CREATE AT THE MOMENT A BOUYANT ECONOMY.

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8. COMMENT: HIGHER FLOWS FROM IFI'S, BOTH IN RECONSTRUCTION AND NATIONAL DEVELOPMENT PLAN LOANS, ARE AN IMPORTANT ELEMENT IN THE OPTIMISTIC CONDITION OF THE BALANCE OF PAYMENTS. THESE FLOWS SHOULD COVER THE EXPECTED DEFICIT. THERE ARE SOME INDICATIONS THAT HIGHER IMPORTS FOR CAPITAL AND INTER-MEDIATE GOODS IS PRESENTLY OCCURRING. A SIMILAR INCREASE IN CONSUMER GOODS IMPORTS COULD DEVELOP IN THE SECOND HALF OF 1976. NONETHELESS, WITH THE HELP OF THE IFI'S AND SEVERAL

NATIONS, HONDURAS SEEMS TO HAVE CONTROLLED ITS BALANCE OF
PAYMENTS VERY WELL THROUGH THE PRESSURES OF HURRICANE
RECONSTRUCTION AND A WORLD RECESSION.
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